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CONSOLIDATED ANNUAL REPORT-1968

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our company

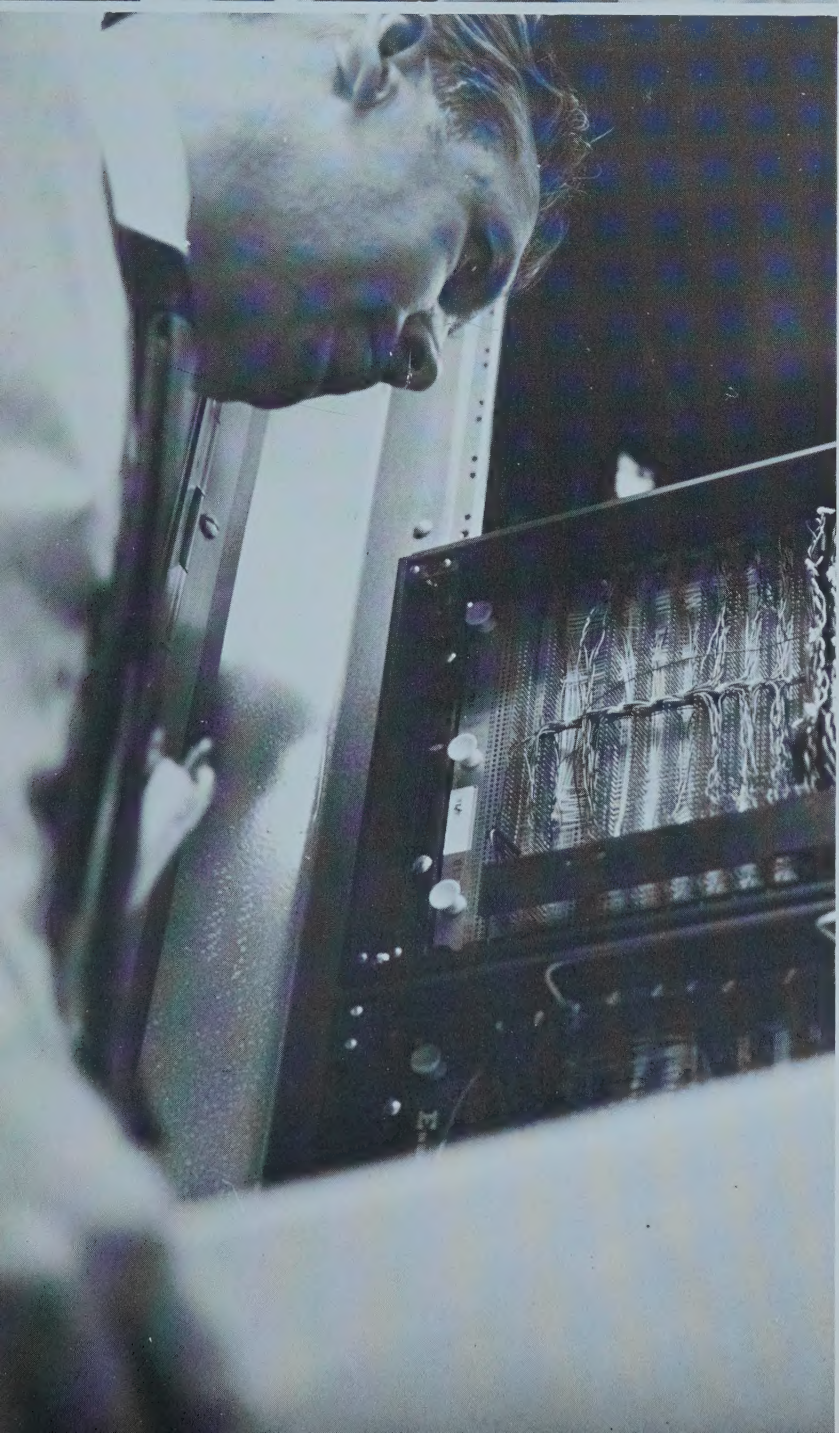
“ Our company “is primarily people” whose highly specialized skills enable us to market an equally specialized concept and technology. Our prime capability is a simple concept . . . that we can help our customers operate more efficiently and in so doing they can increase the profitability of their operation.

Applying our technology often ventures into the world of transistors, circuit boards, integrated circuits and now computers. To the uninitiated, it is almost fanciful that our “hardware” in neat green and orange cabinets can really do all the things we say. To those skilled in modern control techniques and software (today’s “in” word for applying our hardware in the right manner and in the right places) is a giant step forward from the simple loop controls of thermostat, thermometers, and control valves.

This is why we feel people are the life blood of our business. People who can create and build dependable hardware . . . people who can effectively apply and service what we build . . . and people skilled in communicating . . . to graphically portray the ultimate benefits to the owner so that we can better sell our goods, so our customer can more effectively produce his products . . . so we both may enjoy a measured degree of continued prosperity.”

Eric W. Leaver, President

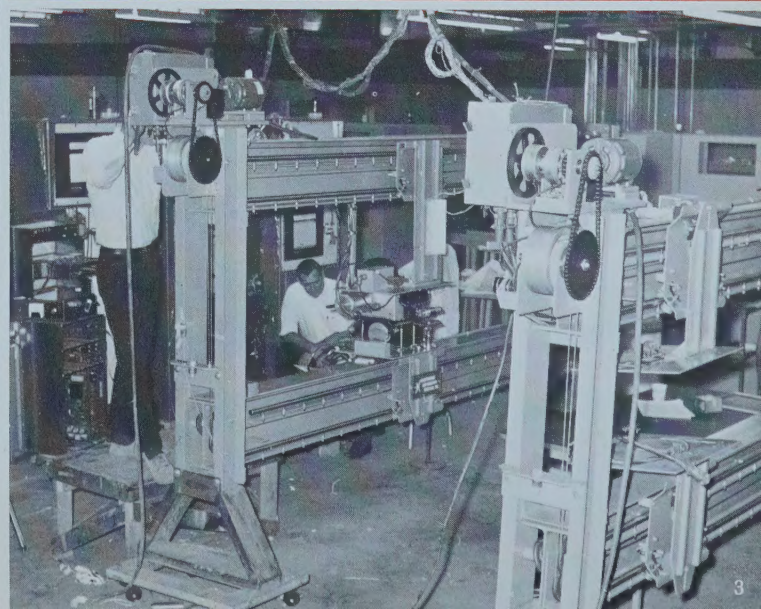




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ELECTRONIC ASSOCIATES OF CANADA LTD.

Officers and Directors

Eric W. Leaver President and Director
George R. Mounce Vice-President, Secretary-
Treasurer and Director
Jack J. Brown Director
C. MacConnell Director
J. R. Woods Director

Executive Staff

Eric W. Leaver President
George R. Mounce Vice-President, Engineering
Bruce W. Smith Vice-President, Marketing
R. H. Bull General Manager, NRD Division
F. A. MacMillan Manager, Systems
H. J. Wolf Controller

Bank: Bank of Montreal, Toronto
Auditors: Price Waterhouse and Co., Toronto
Solicitors: Wahn, Mayer, Smith, Creber, Layons,
Torrance and Stevenson, Toronto
Transfer Agents: Montreal Trust Co., Montreal and Toronto
Trustee: Royal Trust Co., Montreal and Toronto
Plant: Willowdale (Toronto), Ontario

ELECTRONIC AUTOMATION SYSTEMS INC.

(wholly-owned subsidiary of Electronic Associates of Canada Ltd.)

Officers and Directors

Eric W. Leaver President and Director
George R. Mounce Senior Vice-President and Director
Nelson Graves, Jr. Secretary and Director

Executive Staff

Clare H. Fraser Vice-President, Manufacturing
J. Boersma Manager, North American Sales
G. J. Leighton Engineering Liaison
Bernard E. Stapley Manager, Technical Services

Bank: Manufacturers and Traders Trust Co.,
Buffalo
Auditors: Price Waterhouse and Co., Buffalo
Attorneys: Hodgson, Russ, Andrews and Co., Buffalo
Plant: Town of Grand Island, New York

NUCLEAR RADIATION DEVELOPMENTS INC.

(wholly-owned subsidiary of Electronic Automation Systems Inc.)

Officers and Directors

Eric W. Leaver President and Director
Nelson Graves, Jr. Secretary-Treasurer
C. W. (Wally) Wallhausen .. Director and Consultant

Executive Staff

C. W. (Wally) Wallhausen .. Consultant
R. H. Bull Manager, Sales
T. W. Taylor Manager, Production

Bank: Manufacturers and Traders Trust Co.,
Buffalo
Auditors: Price Waterhouse and Co., Buffalo
Attorneys: Hodgson, Russ, Andrews and Co., Buffalo
Plant: Town of Grand Island, New York

ELECTRONIC AUTOMATION SYSTEMS LTD.

(wholly-owned subsidiary of Electronic Associates of Canada Ltd.)

Officers and Directors

Eric W. Leaver Director
George R. Mounce Director
Patrick W. Boyle Director (Managing)

Bank: Barclays Bank
Auditors: Burnett, Swayne and Co.
Solicitors: Albert P. Halberstam, M.A., L.L.B.,
(CANTAB).



to the shareholders

As you can see from the enclosed figures, 1968 was a good year in terms of growth and profits. During the year, we not only added to our line of instruments for the paper industry and computers to our process control systems, but also set up a new subsidiary of EAS, Nuclear Radiation Developments Inc.

This new company will manufacture radioactive products which were purchased as a product line from U. S. Radium Corporation. By the end of the year, a new building with special features for handling this type of material was underway at Grand Island, New York. An additional five acres of land was purchased for the NRD purpose, adjacent to the EAS property on Alt Boulevard. We expect it will make an important contribution to our sales and earnings in the years to come.

We have also obtained additional space in Willowdale where we are now producing our line of geiger tubes, ionization chambers and other specialized components. This new facility will comprise Nuclear Radiation Developments Limited. This subsidiary will also market the products manufactured by Nuclear Radiation Developments, Inc. This indicates our increasing interest in strengthening and enlarging our activities in Canada as well as the United States.

In accordance with our plans mentioned in our 1967 report, we doubled the size of our EAS plant in June, 1968. Its opening was attended by many prominent people in the paper industry as well as representatives from the Greater Buffalo and Toronto areas.

It is interesting to note that without this additional space, it is unlikely that we could have shipped systems necessary to achieve the significant increase in billings during 1968.

During the year, we shipped a large sophisticated control system for the world's largest newsprint machine (386" trim) illustrated on page 6. In addition to several systems shipped to Europe, we received many orders from new customers and repeat orders from old customers in both Canada and the United States.

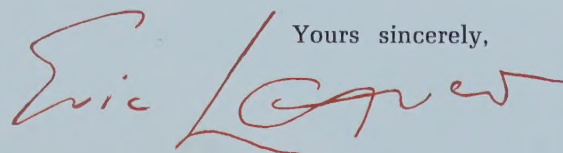
Our philosophy is profitable growth and we intend to enlarge and defend it by all measures at our command, including research and development, product acquisition and such other means as are appropriate and available.

In recent years, we have greatly expanded our engineering, production, and sales staff. The collective experience and creative talents of these people will be a significant factor in the overall growth of our technical capability. Only through vigorous emphasis on the technological growth of our people can your company continue to compete and grow.

Our backlog is larger again this year and the upsurge in Canadian business together with an increase in the United States should push our billings and earnings substantially ahead of 1968.

Our thanks again to our employees, customers, associates, and friends for their support. We intend to do our best to justify their continuing faith and confidence in our company, its people, its products, and services.

Yours sincerely,



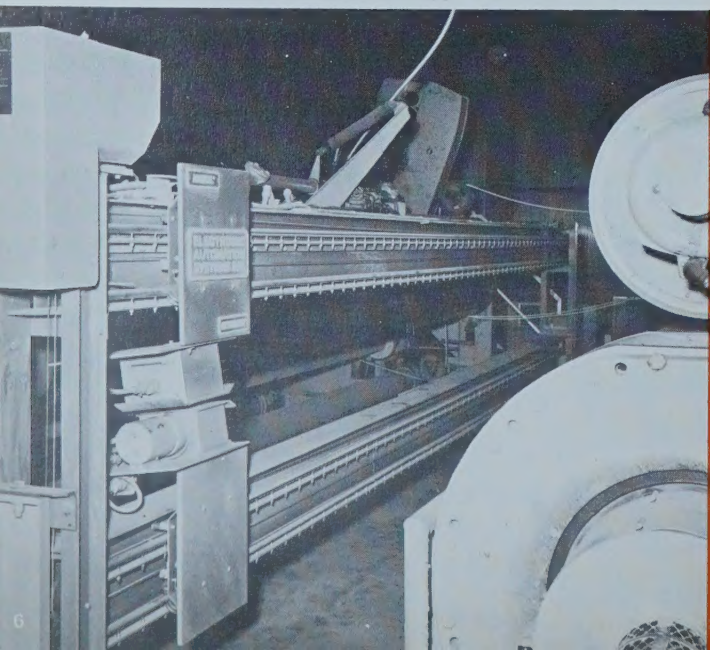
Eric W. Leaver
President



This Aquatel/Betameter system is installed in a new, Southern liner board mill. It measures and controls both basis weight and moisture.

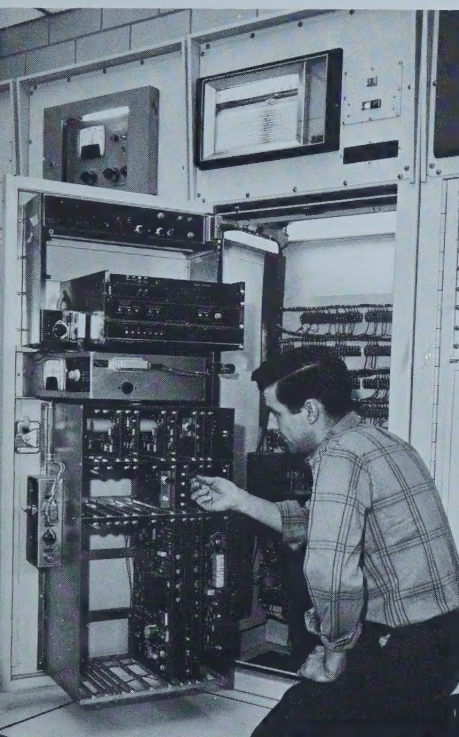


This system is installed on one of the world's largest newsprint machines. The "O" Frame is approximately 34 ft. wide. In addition to measuring and controlling moisture, basis weight, and caliper, this equipment "measures" the fiber formation of the paper as it is produced. The information developed by the system is used by a computer to achieve complete machine control.



This system is installed on one of the world's largest publication grade paper machines located in Northern New England. Two giant "O" Frames and a "C" Frame measure and control moisture and basis weight to insure uniform printability of the sheet.





Electronic Associates of Canada Limited

and its subsidiary companies

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

	Year ended December 31	
	1968	1967
Source of funds:		
Net income for the year	\$406,487	\$173,811
Add non-cash items deducted in arriving at net income —		
Depreciation	27,681	15,466
Amortization of development costs (Note 2)	34,294	31,392
Amortization of debt discount and expense	6,752	4,550
Provided from operations	475,214	225,219
Forgiveness of debt by a director (Note 5)	40,000	—
Issue of shares under option agreements	—	28,750
Increase in long-term debt, net	100,458	23,999
	<u>615,672</u>	<u>277,968</u>
Application of funds:		
Acquisition of fixed assets, net	161,993	52,594
Additions to deferred charges and other assets	117,500	64
	<u>279,493</u>	<u>52,658</u>
Increase in working capital for year	336,179	225,310
Working capital at beginning of year	547,484	322,174
Working capital at end of year	\$883,663	\$547,484

(See accompanying notes to consolidated financial statements.)

CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS

	Year ended December 31	
	1968	1967
Sales and other revenue:		
Trade	\$3,018,219	\$2,113,128
Affiliated company	118,906	40,912
	<u>3,137,125</u>	<u>2,154,040</u>
Costs and expenses:		
Cost of products and services sold, and all expenses except those shown below	2,419,473	1,764,113
Depreciation	27,681	15,466
Amortization of development costs (Note 2)	34,294	31,392
Interest on long-term debt, including amortization of debt discount and expense	46,981	44,258
	<u>2,528,429</u>	<u>1,855,229</u>
Operating income	608,696	298,811
Provision for income taxes	305,000	193,000
Income before extraordinary items	<u>303,696</u>	<u>105,811</u>
Extraordinary items:		
Reduction in provision for income taxes resulting from carry forward of prior years' losses	91,000	68,000
Recovery of warranty costs incurred in prior years (net of \$11,000 income taxes)	11,791	—
	<u>102,791</u>	<u>68,000</u>
Net income for year	406,487	173,811
(Deficit) at beginning of year	(10,118)	(183,929)
Retained earnings (deficit) at end of year	\$ 396,369	\$ (10,118)

(See accompanying notes to consolidated financial statements.)

Electronic Associates of Canada Limited

and its subsidiary companies

CONSOLIDATED BALANCE SHEET

ASSETS

	December 31	
	1968	1967
CURRENT ASSETS:		
Cash (including \$86,700 certificates of deposit in 1967)	\$ 44,312	\$ 132,995
Short-term investment, at cost (approximate market)	63,597	—
Accounts receivable	929,968	474,359
Due from affiliated company —		
7% demand note	33,248	—
Account receivable	43,435	40,912
Inventories, at lower cost and net realizable value	680,613	520,122
Prepaid expenses	16,304	14,342
Total current assets	1,811,477	1,182,730
FIXED ASSETS, at cost:		
Land and buildings	298,857	190,632
Machinery and equipment	156,703	103,575
Rental equipment	15,240	35,553
	470,800	329,760
Less — Accumulated depreciation	106,999	100,271
	363,801	229,489
DEFERRED CHARGES AND OTHER ASSETS:		
Unamortized development costs (Note 2)	115,389	62,761
Unamortized debt discount and financing expenses	26,371	33,122
Pre-operating expenses of subsidiary company (Note 1) . . .	15,361	—
Other deferred charges	15,010	10,569
8% note receivable — due 1983	10,775	—
Goodwill, patents and trademarks	8,024	8,024
	190,930	114,476
	<u>\$2,366,208</u>	<u>\$1,526,695</u>

(See accompanying notes to consolidated financial statements.)

AUDITORS' REPORT

To the Shareholders of
Electronic Associates of
Canada Limited:

We have examined the consolidated balance sheet of Electronic Associates of Canada Limited and its subsidiary companies as at December 31, 1968 and the consolidated statements of income and retained earnings and source and

application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1968 and the results of their operations and the source and application of their funds for the year then ended,

in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

The consolidated financial statements of the companies for the year ended December 31, 1967, which have been restated for comparative purposes, were examined by other chartered accountants.

PRICE, WATERHOUSE & CO.
Chartered Accountants.

LIABILITIES

	December 31	
	1968	1967
CURRENT LIABILITIES:		
Bank indebtedness, secured	\$ 99,024	\$ 30,000
Accounts payable and accrued liabilities	506,873	285,717
Advance payments from customers	98,921	44,092
Income taxes payable	181,827	124,631
Long-term debt payments due within one year	41,169	150,806
Total current liabilities	927,814	635,246
LONG-TERM DEBT (Note 3), less portion		
included in current liabilities	689,855	589,397
Total liabilities	1,617,669	1,224,643

SHAREHOLDERS' EQUITY

CAPITAL STOCK (Note 4):		
Authorized —		
1,500,000 common shares without par value		
Issued and fully paid —		
703,828 shares	304,081	304,081
CONTRIBUTED SURPLUS (Note 5)	48,089	8,089
RETAINED EARNINGS (DEFICIT)	396,369	(10,118)
	748,539	302,052

Approved on behalf of the Board:

Director
 Director

<u>\$2,366,208</u>	<u>\$1,526,695</u>
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 1968

1. Principles of consolidation:

The consolidated financial statements include the accounts of the company and its five subsidiary companies (all wholly-owned). One subsidiary (see Note 6) is in the pre-operating stage and net expenses of \$15,361 have been deferred at December 31, 1968; operations are expected to commence in 1969.

Foreign currency balances included in the consolidated financial statements have been expressed in Canadian dollars on the following bases:

Current assets and liabilities	— at rate of exchange December 31, 1968
Other assets and liabilities	— at historical rates of exchange
Income and expenses	— at average rates of exchange for 1968.

2. Unamortized development costs:

Research and development costs incurred in 1968 relating to several new types of equipment amounted to \$86,392 and are being amortized over various five-year periods.

At December 31, 1968 the unamortized portion of these costs plus the balance of development costs incurred in 1965 amounted to \$115,389 of which approximately \$48,700 will be charged against income in 1969.

3. Long-term debt:

	December 31	
	1968	1967
Electronic Associates of Canada Limited —		
6 ⁰ / ₁₀₀ first mortgage (term has expired but mortgagee has extended maturity for an indefinite period)	\$ 56,000	\$ 56,000
5 ⁰ / ₁₀₀ sinking fund mortgage debentures, Series A due May 1, 1975	227,500	325,000
6 ⁰ / ₁₀₀ second floating charge convertible debentures due December 31, 1971	113,000	113,000
Conditional sales contract due September 1983	8,557	—
	<u>405,057</u>	<u>494,000</u>
Subsidiary (guaranteed in part by parent company) —		
7 ⁰ / ₁₀₀ promissory note (secured) renewable annually to 1972	161,625	173,400
Mortgages payable in monthly instalments of \$1,431 principal and interest —		
6 ¹ / ₂ ⁰ / ₁₀₀ due October 1983	89,795	42,821
6 ⁰ / ₁₀₀ due September 1983	50,758	22,860
6 ¹ / ₂ ⁰ / ₁₀₀ due September 1983	23,789	7,122
	<u>731,024</u>	<u>740,203</u>
Less — Portion included in current liabilities	<u>41,169</u>	<u>150,806</u>
	<u>\$689,855</u>	<u>\$589,397</u>

The maximum annual sinking fund payment relating to the 5⁰/₁₀₀ sinking fund mortgage debentures, Series A is \$32,500.

The trust indenture relating to the 5⁰/₁₀₀ sinking fund mortgage debentures, Series A, contains certain provisions prohibiting the declaration of dividends or reduction of capital which would reduce consolidated net current assets (as defined) below a certain level. As at December 31, 1968 such net current assets exceeded the minimum requirements by not less than \$683,663.

The 6⁰/₁₀₀ second floating charge convertible debentures are convertible into common shares in the capital stock of the company at the rate of 1,000 shares for each \$1,000 principal amount of debentures converted up to December 31, 1971.

4. Capital stock:

During 1968, the company obtained supplementary letters patent which increased the authorized capital stock of the company from 750,000 common shares to 1,500,000 common shares without par value.

At December 31, 1968, the company had reserved certain shares for issue as follows:

	Number of shares
(a) For conversion of 6 ⁰ / ₁₀₀ second floating charge convertible debentures	113,000
(b) For issue under employee share option plan at a price of \$1.25 per share with respect to 6,000 shares (for which options were granted prior to January 31, 1968) and at a price of approximately 85 ⁰ / ₁₀₀ of the average market value of the shares during the twelve month period immediately preceding the date the option is granted with respect to 19,000 shares (for which no options had been granted at December 31, 1968)	25,000
(c) For issue under employee share participation plan (see below)	4,578
	<u>142,578</u>

During 1968, the company adopted an employee share participation plan whereby certain employees of the company and its subsidiaries would receive common shares of the company as future bonus compensation based upon length of service and other qualifications. At December 31, 1968, approximately 4,578 shares were reserved for future issue to employees designated under the plan at closing bid prices on March 15, the respective day of issue in each of the years 1969 through 1970. On March 15, 1969 the company issued 1,864 common shares under the plan for an aggregate consideration of \$41,008. Under the plan, the companies compensate the employees acquiring shares in an amount equal to the consideration paid for the shares; at March 15, 1969 the cost to the companies relative to the shares issued on that date was \$41,008. At current market prices, the cost relative to the remaining shares which may be issued under the plan is approximately \$20,000 annually.

5. Contributed surplus:

On February 14, 1968, the company purchased from a director \$40,000 principal amount of 5% sinking fund mortgage debentures, Series A; the proceeds of the purchase were loaned back to the company by way of an 8% promissory note. In September 1968 the promissory note was forgiven and the amount of \$40,000 was transferred to contributed surplus.

6. Commitments:

The company and its subsidiary companies have entered into certain agreements under which the following commitments are outstanding:

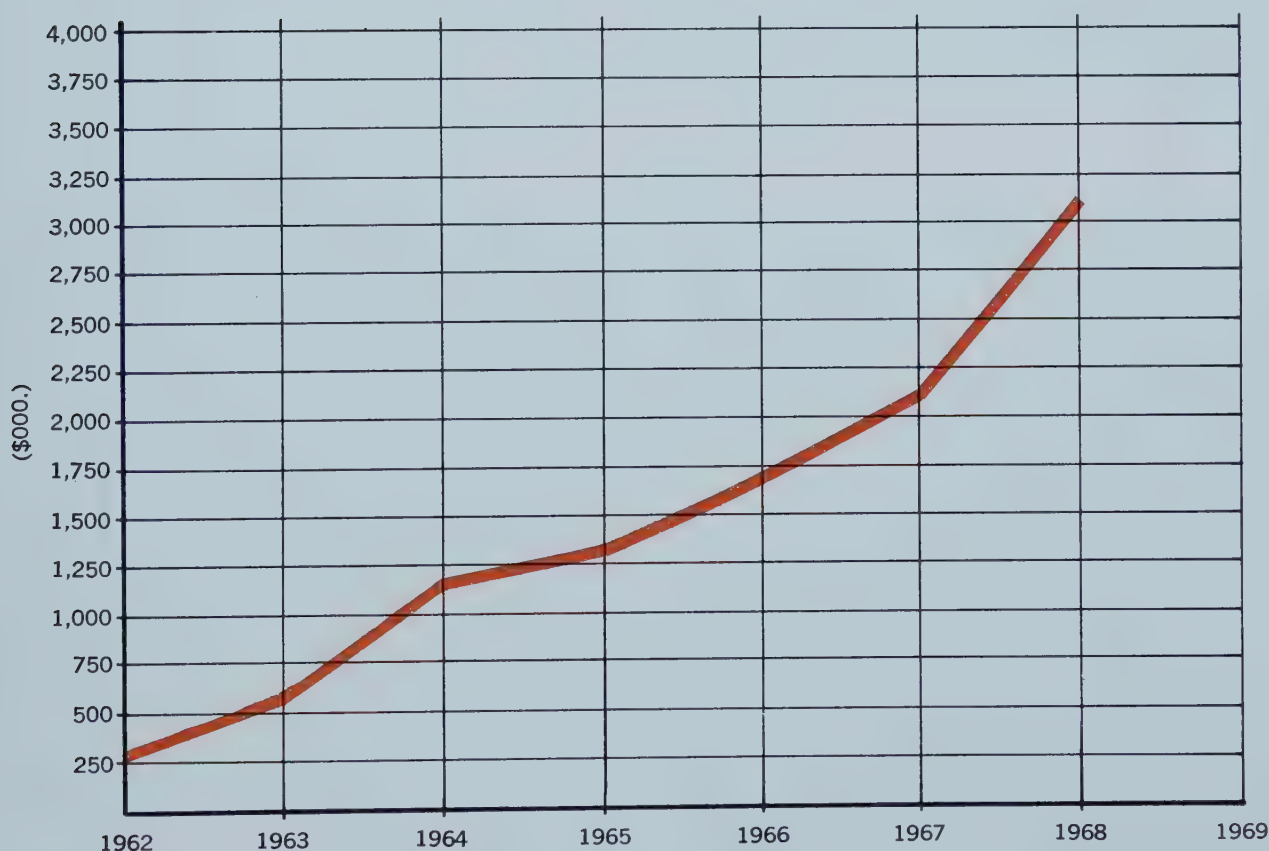
- (a) The purchase by Nuclear Radiation Developments, Inc. (a newly-formed subsidiary) of equipment, inventories, processes, accounts and certain customers' lists during 1969 for approximately U.S. \$80,000 cash. The vendor of these assets has the right to purchase during the period 1970 to 1972 20% of the capital stock of the new subsidiary at a price based on earnings.

- (b) The construction by Nuclear Radiation Developments, Inc. of a facility for its operations at an approximated total cost of U.S. \$250,000; negotiations for financing the cost of land, buildings and equipment are presently underway with an agency of the State of New York.
- (c) The purchase by a subsidiary of three computer operating systems and related hardware at a cost of U.S. \$210,000; this purchase is part of an agreement whereby the subsidiary acquires the rights to produce and market specific computer operating systems.
- (d) The payment by a subsidiary of certain minimum annual royalties to produce certain equipment; these minimum annual royalties range from U.S. \$63,000 in 1969 to U.S. \$100,000 in 1972 and in decreasing amounts thereafter.

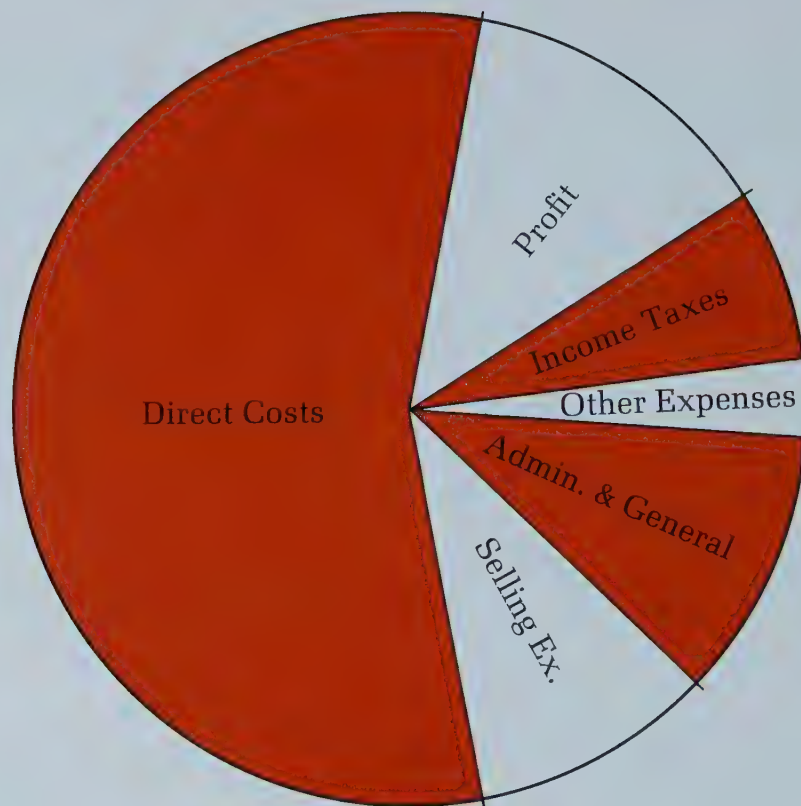
7. Remuneration of directors and senior officers:

The aggregate direct remuneration paid by the company and its subsidiaries to the directors and senior officers, as defined in The Corporations Act (Ontario) amounted to approximately \$88,000 (1967 - \$70,000).

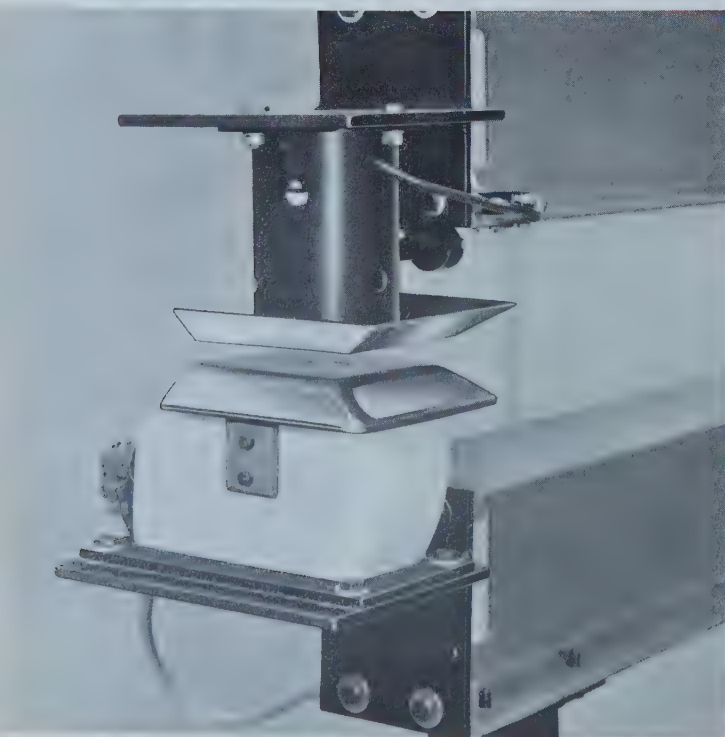
CONSOLIDATED NET SALES



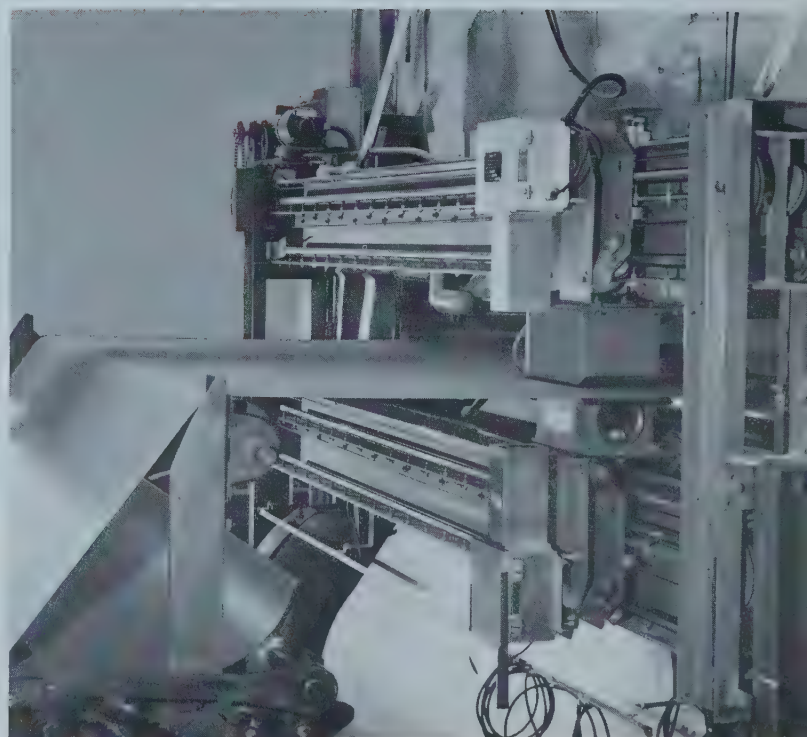
OPERATION CHART



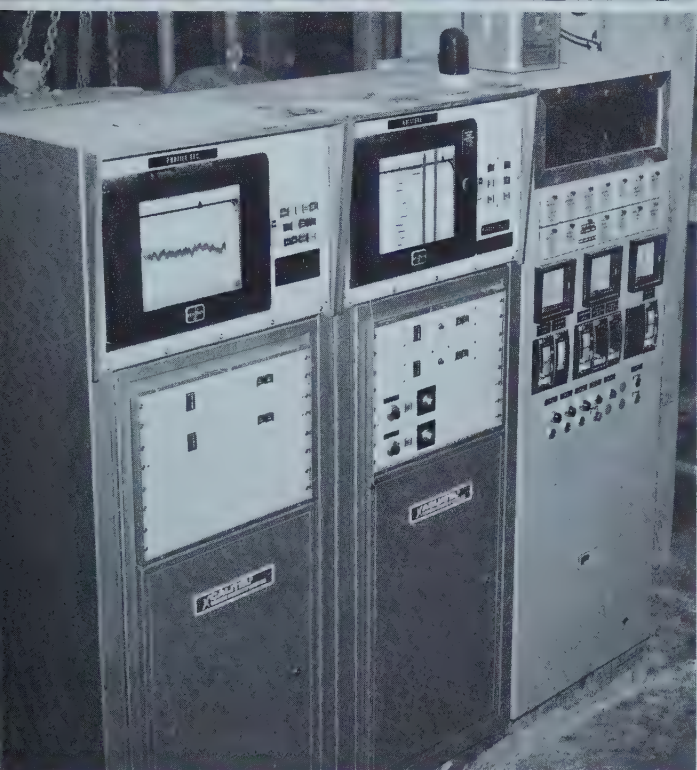
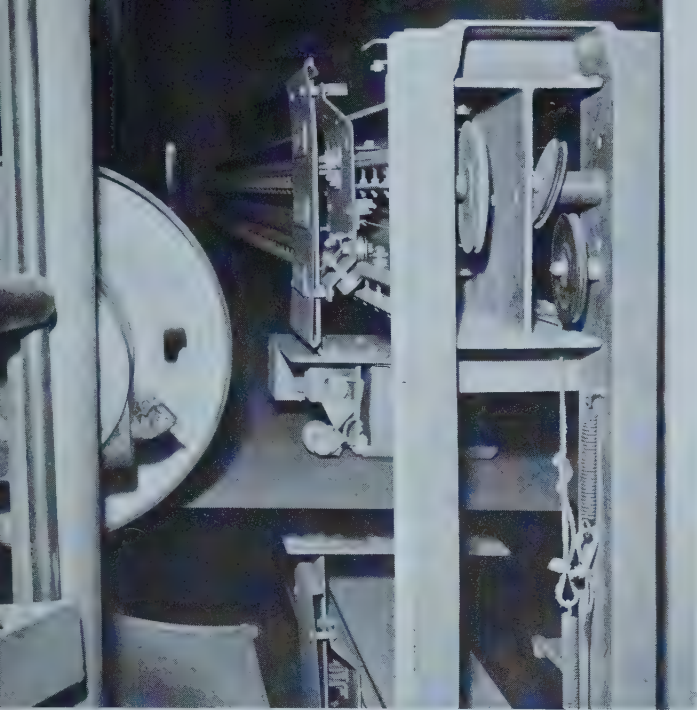
new products



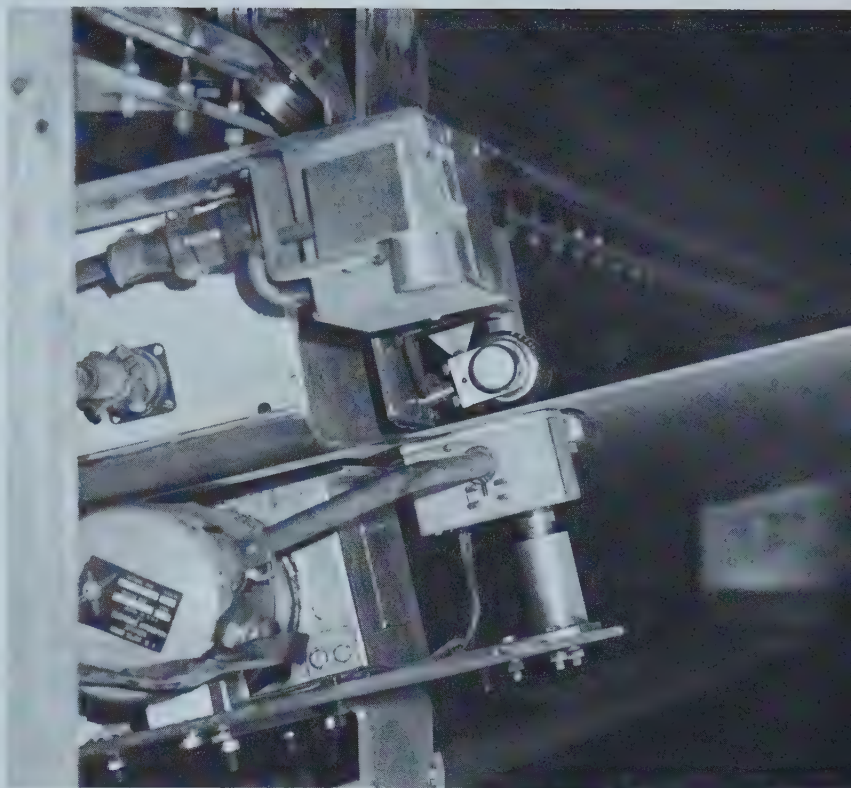
The Opacitel is a new development, and it offers an outstanding potential for future development. It measures the opacity of the paper as it is made and offers significant potential savings through the automatic control of filler additions.



The Gigatel installed on this cylinder board machine measures and controls high levels of moisture. The Gigatel Moisture Meter was originally developed by the Beloit Corp. and is now manufactured under license from them.

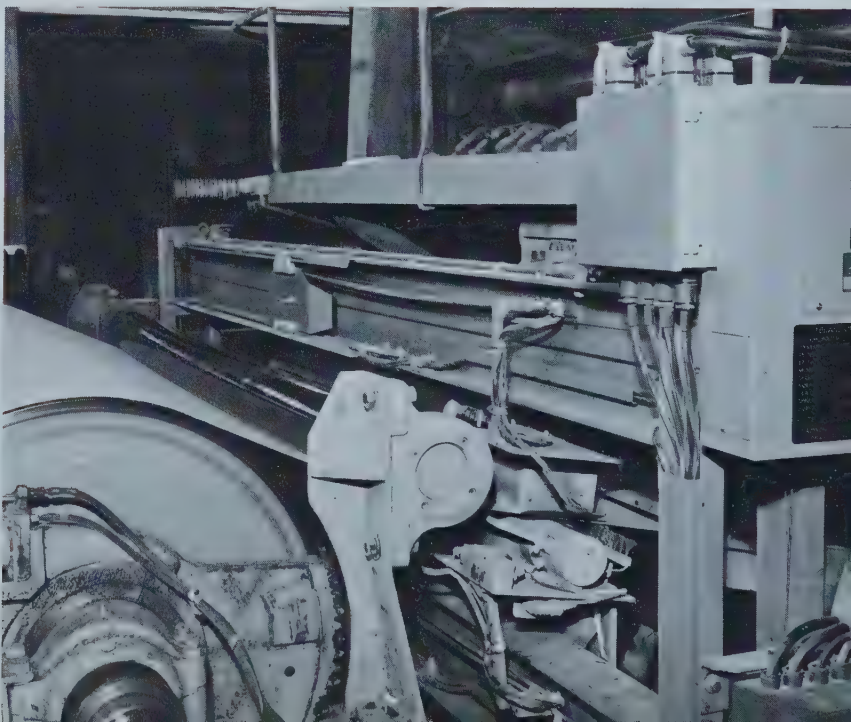


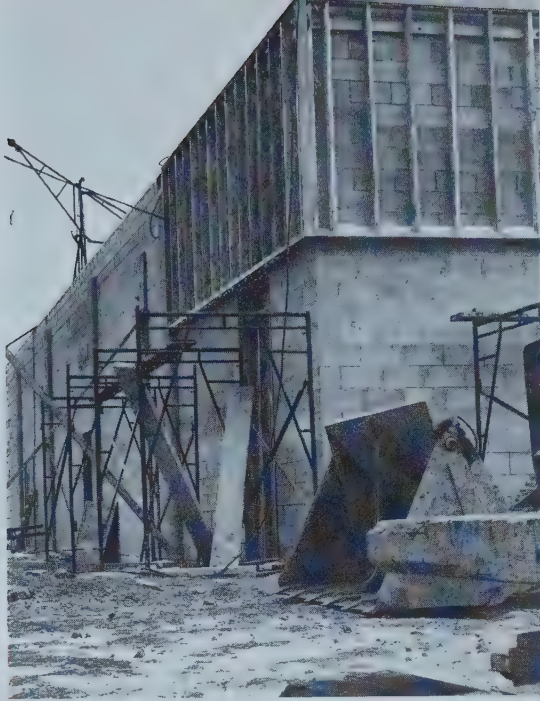
This Aquatel-Betameter-Calitel System measures and controls moisture, basis weight, and caliper in a new, large West Coast Canadian newsprint mill.



This Calitel, equipped with a new roller shoe, is installed in a large, Eastern Canadian fine paper mill. This improvement was developed by the EAC/EAS Engineering Department. It represents a significant advance in measuring technique since the caliper of the finest paper can be measured without tearing the sheet.

This "O" Frame is installed on a paper machine located in Trieste, Italy. It is one of three systems shipped to Italian mills last year to measure moisture and control and basis weight of paper products.





NRD

Nuclear Radiation



Developments, Inc.



In the latter part of 1968, your company acquired the nuclear materials operation from the United States Radium Corporation and established a U. S. subsidiary corporation — Nuclear Radiation Developments, Inc. — to carry on production and marketing activities. This new operation will be contained in a new 7,000 sq. ft. building currently under construction on a six-acre plot of land adjacent to the existing EAS facility at Grand Island, New York.

Construction is well underway, and we will shortly be in production on nuclear products for established markets in the United States, Canada, and abroad. The end products of our customers include equipment for such widely diverse fields as gas chromatography, fire detection, static elimination, lightning protection and nuclear gauging.

The completed building will incorporate the most modern facilities available and provide an atmosphere conducive to creative accomplishments. The approximate cost of the new facility is estimated at \$425,000, exclusive of start-up costs. Operation is expected to begin in the summer of 1969.

Recent revisions in regulations governing the distribution of these nuclear materials will greatly assist the development of markets for these products both here and abroad. Many new by-product isotopes are becoming available in larger quantities from the Atomic Energy Commission. They present an interesting potential for commercial applications.

Qualified personnel will be recruited for the NRD staff to provide capability to solicit contract research and development programs from commercial and governmental organizations.

The unique laboratory facilities have been designed not only for immediate needs but also for future handling of new products of similar nature to those now being processed. Provisions for expansion have also been built-in to the new facilities to meet projected requirements for processing equipment and personnel.

The present NRD staff share with EAC/EAS personnel many common areas of technological interest. It is anticipated that this will be an important factor in the integration of these two operating companies. NRD looks forward to contributing to the already well-established capability and reputation of the parent organizations.

C.W. Wallhausen, Director NRD

DPC Process Computer

Digital computer systems are now an accepted, proven part of paper mill instrumentation. These systems are being used to automatically control such portions of the process as digesters, bleach plants, refining, stock blending and the paper machines. They provide process operators with convenient, readily understandable control panels that utilize digital read-outs and cathode ray tube displays and provide the operators and management with process alarm and production data. To date, the emphasis in computer system design has been directed toward the use of a fairly large computer system performing many functions. Typically, the paper mill will require three to five technically trained personnel to maintain and update the computer programs.

Your company has designed a small computer system that is dedicated to controlling a portion of the paper making process. This computer follows our 'building block' approach to the development of systems for the paper industry. We offer it to the industry as an added method of realizing more benefit from our existing process sensors and controls.



The computer we are using is a Varian Data Machine Model 620/i. It mounts readily in our standard racks and is compatible with environments existing in paper mills. The operator console is designed to provide a means of adjusting several control loops and displaying control information in digital form. An automatic typewriter generates operator alarm information and production data.

The programming for our computer was done by personnel in the Control Systems Division of the Beloit Corporation. These experts have had extensive experience in implementing three large computer systems in paper mills. Our control programming is modularly designed and can be readily adapted to the customers' needs.

The first of our computer systems was on display at the TAPPI convention in New York City during February 17 to 19. It attracted much attention. We feel that our approach to computer systems is the correct one and that this excellent system will justify our confidences. The EAC/EAS DPC Process Computer provides a significant potential for the growth of your company.





During the year 1968 the Engineering Department of your company has been engaged in:

(a) The preparation of engineering releases (the documentation which governs production of the various systems manufactured).

(b) Standardization of drawings and the streamlining of the information process to reduce the time required to prepare an engineering release.

(c) Up-dating of existing equipment to incorporate applicable advances in technology.

(d) Development of new products and/or methods.

The measuring system for one of the world's largest paper machines mentioned in the semi-annual report, was installed and working before the end of the year. This system demonstrates our capability for producing measuring equipment suitable for even the most sophisticated computer control of processing.

We have embarked on our own computer program and are now able to provide the complete computer packages for process control in the paper industry. Fortunately, our gauging equipment was already computer oriented. The development of this computer package was accomplished at minimum cost in time and money.

G. R. Mounce
Vice President, Engineering



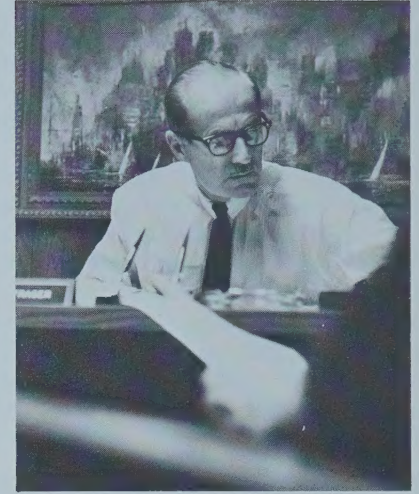
Increased sales and broadening of the product line, including the computer, has been accompanied by a corresponding development of the capabilities of the Customer Services Department.

The addition of a professional staff, with a broad experience in the paper industry, and the recent expansion of the facilities of the application laboratory will ensure an increased income from Applications Programs. At the same time, these people will provide excellent support for our Sales Department.

Field Personnel training programs have proved highly effective in maintaining a high level of competence in start-up assistance on new installations. This same program now provides more efficient service on systems already in operation.

A number of Technical Assistance Contracts and Resident Engineering Contracts have been arranged. Our customers have expressed a high degree of satisfaction with these contracts. We can expect an ever increasing revenue from this area in the future.

Bern E. Stapley
Manager, Customer Services



The opening of the expanded Grand Island facilities in June has enabled us to greatly extend our production capability. We are now manufacturing instrumentation, mechanical assemblies and electronic assemblies in greater volume than ever before.

Our production efficiency in these areas has also improved. Based upon our rising production volume, we anticipate that in 1970 we will be seriously considering further expansion of plant and facilities.

The new NRD facility will be in production soon which will enable us to provide services in an entirely new field but a field which is not new to us. This facility will blend into our present capabilities.

Clare H. Fraser
Vice President-Manufacturing

ELECTRONIC ASSOCIATES OF CANADA LIMITED AND SUBSIDIARY COMPANIES

OUTLOOK

The Paper Industry continues to ride in the wake of a generally rising economy. Economists predict an overall gross national product increase of 88% by 1988. This estimate reflects a continued economic growth of 4.3% per year compared to a growth pattern of 3.9% per year over the past 20 years.

Of more immediate concern is the future of our own major customer group, the Paper Industry. In a recent article, PAPER TRADE JOURNAL forecasts an annual increase of paper industry capacity of 2.7%. This can be compared to a figure of 6.15% for 1967 and '68. The long-range projection shown in the graph would confirm that the continued growth of the Pulp and Paper Industry will provide a receptive market for EAC/EAS products. Keeping pace with a growing economy is only part of the story. By 1982, an average work week of 35 hours is predicted (compared with the 1967 average of 38 hours). Over this same period, a 56% increase in labor productivity is forecast (an annual increase of 3%). The productivity increase was only 44% from 1952 to 1967. Thus, we see an increase of 20% in output per man hour . . . more output in fewer hours. We visualize this socio-economic trend to be a significant factor in the growth of the markets for EAC/EAS products. Only with the assistance of more and better control devices can labor be expected to perform this feat.

Not only can we lighten the work load; our instruments and control capabilities can make decisions which are more rapid and more effective . . . to generate greater productivity in terms of revenue — dollars — for the paper making industry. Proof of this is indicated in the rising trend of dollars invested for improved instrumentation techniques. In 1955, 11% of every dollar invested in capital goods was spent for instrumentation. In 1967, the figure was 20%. In 1982, it is projected to be 30%.

In the face of rising cost, mill management is becoming ever more receptive to more sophisticated methods of increasing operating efficiency . . . and profitability. Slowly, the available paper-making capacity is coming into equilibrium with production requirements, but the standards of production are giving way to investments in productivity . . . older, inefficient machinery is being replaced by larger, more profitable paper making equipment. Four-hundred inch trim machines are being in-



stalled today. Five-hundred inch machines are on the drawing boards for tomorrow. More complex systems are needed to operate these machines to maximize productivity . . . to justify the investment in capital goods.

It is in this light that we seek the pay-off for our development efforts for improved systems and techniques. Our past efforts to relate paper formation to wet-end control systems, of investigating new parameters of measurement such as opacity, porosity, and high levels of moisture . . . will allow us to market equipment to immediately answer the critical control needs of progressive paper manufacturers. Our new "DPC" Process Computer allows us to offer a comprehensive measurement-control complex of the highest efficiency to satisfy more sophisticated requirements.

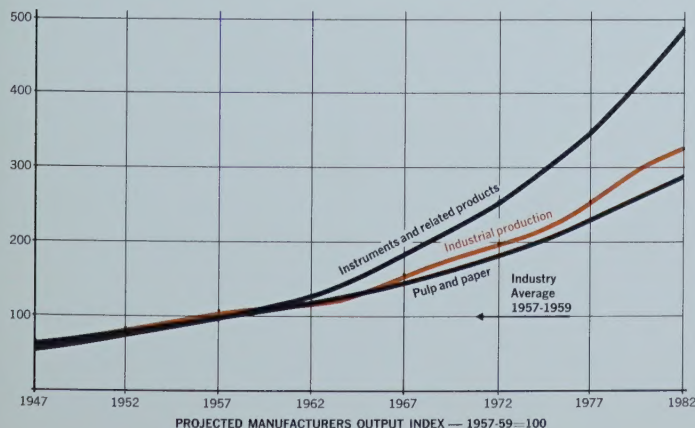
The growing acceptance of the EAC/EAS name has been very apparent in terms of new sales and, in particular, repeat sales; typically, a second Aquatel-Betameter system was recently shipped to Pine Falls, Manitoba. This represents the eighth order for measurement systems for the Abitibi Paper Co. Ltd. The quality and performance of our product has been an important factor in this recognition.

A large multi-scanning, multi-sensing system was recently completed and installed in a large southern U.S.A. mill. It was interfaced with an IBM 1800 Computer and within one month was on line providing automatic control.

Our sales organization has been expanded so that we can more effectively pursue business throughout the U. S., Canada, and abroad. New technical field service offices have been established in new, key production areas to maintain our equipment and reputation there.

We forecast continued growth in the sales of EAC/EAS equipment in the immediate and long-term future . . . not only for individual products but also for complete systems and for equipment for the measurement and control of new factors such as formation, opacity, and permeability. Our development of the "DPC" Process Computer will also enable us to pursue new business in the plastics, rubber, steel, and food industries.

Bruce W. Smith, Vice President-Marketing



SUBSIDIARIES

Electronic Automation Systems Inc., Grand Island, New York.
Electronic Automation Systems Ltd., London, England.
Electronic Automation Systems Canada Ltd., Toronto, Canada.
Nuclear Radiation Developments, Inc., Grand Island, New York.
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PATENTS, TRADEMARKS, EXCLUSIVE SOFTWARE, AND EXCLUSIVE MANUFACTURING RIGHTS

EAC and EAS are the owners of more than sixty patents and trademarks in nine countries.

EAC and EAS are licensors and licensees of patents in Canada, the United States and Mexico.

We have exclusive manufacturing rights for the Calitel (precision caliper gauge) and the Porotel (porosity gauge) developed by Consolidated Papers Inc. of Wisconsin Rapids, Wisconsin.

We have exclusive manufacturing rights for the Paper Machine Monitoring System developed by the Oxford Paper Company, West Carrollton, Ohio, and the Britel (Pulp Brightness Meter) developed by the International Paper Company.

EAC and EAS have exclusive manufacturing rights for the uranium ore sorters, the colour ore sorter and the Waste sorters from Ore Sorters (Canada) Ltd. and Material Separators Inc.

EAC and EAS have exclusive manufacturing rights for the Gigatel (high-level moisture gauge), the Rho-Meter (roll hardness tester), and exclusive Software arrangements for specific process computer applications in the paper industry. The latter are under exclusive license arrangements with various subsidiary divisions of the Beloit Corporation.

